Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Ridley-Thomas	Analyst:	Rachel Coco	Bill Number:	AB 168
Related Bills:	See Legislative History	Telephone:	845-4328	Introduced Date:	January 19, 2005
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: California Tax Expenditure Accountability Act/Tax Expenditures Report

SUMMARY

This bill would require the Department of Finance (DOF) to submit a report on tax expenditures to the Legislature.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to establish a reporting system in order to evaluate the effectiveness of tax expenditures.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2006. However, the bill states that DOF would make its first report to the Legislature on or before September 15, 2006.

POSITION

Pending.

ANALYSIS

STATE LAW

State law requires DOF to provide an annual report to the Legislature on tax expenditures providing details on individual categories of the expenditures and historical information on the enactment and repeal of the expenditures.

State law requires all state agencies to submit to the Governor a complete plan and itemized statement of all proposed expenditures and estimated revenues for the ensuing fiscal year.

The Governor is required to submit a budget within the first 10 days of the regular session of the Legislature. The Governor's budget is developed using the state agency reports described above.

Board Position:			Department Director	Date
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THIS BILL

This bill would repeal the existing provision that requires DOF to provide an annual report to the Legislature on tax expenditures, described above.

This bill would require DOF to submit a report on tax expenditures currently in effect, including those under the Personal Income Tax Law (PITL), the Corporation Tax Law, and the Sales and Use Tax Law to the Legislature. The report would be required to contain the following, to the extent feasible:

- a description of each tax expenditure,
- the statutory, constitutional, or other legal authority for each tax expenditure,
- the original intent of each tax expenditure, and
- an estimate of revenue loss for the most recent fiscal year for each tax expenditure.

In addition, DOF would be required to include information in the report, based on information provided by the Franchise Tax Board (FTB), regarding tax expenditures that are separately identified on returns or claims, to the extent feasible:

- the number of tax returns or taxpayers affected by the tax expenditure, and
- the distribution of each tax expenditure, as follows:
    - for expenditures available to businesses, by size of the business or industry, by size of total receipts, and by type of business or industry, and
    - for expenditures under the PITL, by adjusted gross income brackets.

This bill would require DOF to provide its tax expenditure report to the Legislature on or before September 15, 2006, and on or before September 15 of each even-numbered year thereafter. The report would also be provided in odd-numbered years, but may be limited to new or revised tax expenditures and to significant updates, revisions, or corrections of information in the prior year's report.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department.

LEGISLATIVE HISTORY

AB 2106 and AB 990 (Ridley-Thomas, 2003/2004) contained language similar to the language contained in this bill. AB 2106 was vetoed by Governor Schwarzenegger. The veto message stated that it would be difficult for DOF to report some of the information required by AB 2106 since much of it is unavailable. AB 990 failed to pass out of the Legislature by the constitutional deadline.

SB 1292 (Haynes, 2001/2002) would have required state agencies, boards, commissions, departments, and offices to provide a report regarding financial activities to specific legislative committees for the 2001/2002 fiscal years and preceding fiscal years. SB 1292 failed to pass out of the house of origin.

OTHER STATES' INFORMATION

The states reviewed include *Illinois, Massachusetts, Michigan, Minnesota,* and *New York.* These state were selected due to their similarities to California's economy, business entity types, and tax laws*.*

Illinois, *Michigan*, and *New York* require a tax expenditure report, similar to the reports proposed by this bill, to be submitted by the respective Governor of each state to the Legislature every year. There was no information available for *Massachusetts*.

Minnesota requires the commissioner of revenue to prepare a tax expenditure budget report for the state. The report contains the amount of tax revenue foregone for each tax expenditure, the legal authority for each tax expenditure, and the year in which each was enacted. The report is submitted to the Legislature by February 1 of each even-numbered year.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

This bill would not impact the state's income tax revenue.

LEGISLATIVE STAFF CONTACT

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